

Message Text

CONFIDENTIAL

PAGE 01 PHNOM 02552 01 OF 02 201329Z

43

ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 SAM-01 EB-11 COME-00 TRSE-00 AGR-20 DRC-01

SR-02 ORM-03 AID-20 IGA-02 /152 W

----- 102368

R 200856Z FEB 74

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 5060

C O N F I D E N T I A L SECTION 1 OF 2 PHNOM PENH 2552

E.O.11652: GDS

TAGS: EAID EFIN CB

SUBJECT: HYPERINFLATION IN CAMBODIA AND THE NEW ECONOMIC POLICY

REF: A. PHNOM PENH 13325; B. PHNOM PENH 14293

1. AS WASHINGTON AGENCIES WILL RECALL, ON DECEMBER 1 OUR ASSESSMENT OF CAMBODIA'S LARGE HYPERINFLATION AND PROPOSED CERTAIN MEASURES WHICH WE RECOMMENDED WE BE AUTHORIZED TO DISCUSS WITH THE GKR. AFTER SEVERAL EXCHANGES WITH WASHINGTON WE WERE AUTHORIZED TO UNDERTAKE DISCUSSIONS AND NEGOTIATIONS FOR A PROGRAM GENERALLY ALONG THE LINES PROPOSED BUT WITHOUT COMMITMENT BY US OF THE AMOUNTS OF RICE AND ECONOMIC ASSISTANCE WHICH WE HAD PRE- DICATED NECESSARY FOR THE NEW PROGRAM. IN THE LATTER PART OF DEC. WE COMMENCED INTANSIVE DISCUSSIONS WITH THE NEW LONG BORET GOVT. AGREEMENT WAS REACHED AND ON DECEMBER 28 THE NEW PRIME MINISTER INCLUDED MUCH OF THE NEW ECONOMIC POLICY IN HIS INAUGURAL ADDRESS TO THE NATIONAL ASSEMBLY. THIS MESSAGE IS INTENDED AS A REVIEW OF THE PROGRESS IN ITS EXECUTION.

2. THERE WERE SEVEN ESSENTIAL FEATURES TO THE NEW ECONOMIC PROGRAM.

A. THE SUPPLY OF RICE WAS TO BE AUGMENTED AND THE PRICE BROUGHT DOWN. IN OUR ORIGINAL PROPOSAL WE HAD POSTULATED THAT DEFLATIONARY ACTION WAS NECESSARY BY DRASTICALLY LOWERING THE PRICE OF RICE ON

CONFIDENTIAL

PAGE 02 PHNOM 02552 01 OF 02 201329Z

THE FREE MARKET. AT THAT TIME THE PRICE WAS 13,000 RIELS PER 100

KILO SACK. WE HAD HOPED TO LOWER THAT AT LEAST TO 9,000 RIELS AND POSSIBLY MORE. AS OF NOW THE PRICE OF AMERICAN RICE ON THE FREE MARKET IS ABOUT 6,500 RIELS PER 100 KILO SACK. THE PRICE OF BATTAMBANG RICE ON THE FREE MARKET HAS DROPPED FROM ABOUT 20,000 RIELS PER SACK TO A BIT OVER 13,000 RIELS. THIS DRAMATIC RESULTS HAS BEEN ACHIEVED BY THE SUBSTANTIAL PROGRESS MADE IN BUILDING UP RICE STOCKS TO CLOSE TO SIX WEEKS SUPPLY IN PHNOM PENH. NO ATTEMPT HAS BEEN MADE TO "FLOOD THE MARKET" BUT DISTRIBUTION HAS BEEN GENEROUS, INITIALLY 650 TONS PER DAY FROM PUBLIC STOCKS AND WITH THE ATTRITION OF SOME LOCAL RICE INTO THE MARKET AND THE BUILDUP OF PRIVATE STOCKS, THIS DISTRIBUTION HAS DROPPED TO 440 TONS PER DAY. MAINTENANCE OF REASONABLE PRICE FOR RICE DURING THE COURSE OF 1974 REQUIRES, OF COURSE, CONTINUED ADEQUATE IMPORT LEVELS.

B. THE BUDGET DEFICIT WAS TO BE CONTINUED AND GREATER SCRUTINY EXERCISED OVER MILITARY AND CIVIL EXPENDITURES. IN OUR DISCUSSIONS WITH THE GOVERNMENT WE HAD POSTULATED THAT THE FISCAL SECTOR DEFICIT SHOULD NOT EXCEED 10 BILLION RIELS. IT IS STILL TOO EARLY TO TELL THE EXTENT TO WHICH WE WILL BE SUCCESSFUL IN THIS ENDEAVOR. WE HAVE SCRUTINIZED THE BUDGET, PARTICULARLY THE MILITARY BUDGET, THIS YEAR WITH THE GKR IN GREATER DETAIL THAN BEFORE. MILITARY MATERIAL COSTS IN PARTICULAR HAVE BEEN GIVEN ATTENTION TO ASSURE ON THE ONE HAND ADEQUACY AND ON THE OTHER THAT UNNECESSARY EXPENDITURES ARE NOT AUTHORIZED. CONSIDERABLY MORE NEEDS TO BE DONE IN ASSURING ADEQUATE BUDGETARY CONTROL OVER THESE EXPENDITURES AND IN TRYING TO CREATE AN EFFECTIVE WORKING RELATIONSHIP AMONG THE VARIOUS KHMER OFFICES AND MINISTRIES CONCERNED. WE WILL SHORTLY HAVE A BUDGET EXPERT TO STICK WITH THIS PROBLEM.

C. GKR REVENUES BOTH FROM DOMESTIC SOURCES AND EXTERNAL AID WERE TO BE MAXIMIZED. THE TARGET FOR DOMESTIC REVENUES WAS SET AT 20 BILLION RIELS AND WE ARE AT THIS MOMENT HOPEFUL OF ITS ACHIEVEMENT. THE MAXIMIZATION OF REVENUE FROM FOREIGN AID IS DEPENDENT, OF COURSE, ON THE VOLUME OF SUCH AID BUT MORE IMPORTANTLY ON THE EXCHANGE RATE. IN OUR INITIAL PROPOSAL, WE HAD POSTULATED THAT AN IMMEDIATE DEVALUATION OF THE RIEL TO 425 RIELS PER DOLLAR WAS DESIREABLE. WITH CONSIDERABLE RELUCTANCE, THE GOVT DID AGREE TO DEVALUE THE RIEL BY 25 P/C TO 375 RIELS PER DOLLAR. IT MUST BE NOTED THAT THOSE IN THE GKR WHO WERE OPPOSED TO THE PROPOSED DEVALUATION WERE SUPPORTED BY THE IMF RES REP, WHOSE OPPOSITION TO A REALISTIC EXCHANGE RATE HAS MADE IT MORE DIFFICULT TO MAKE ACCEPTABLE PROGRESS IN THIS DIRECTION. WE HAD HOPED AS PART OF INCREASING

CONFIDENTIAL

PAGE 03 PHNOM 02552 01 OF 02 201329Z

DOMESTIC REVENUES TO SEE A REFORM OF THE FISCAL AND CUSTOMS SYSTEM AND IN THIS AREA PARTICULARLY HAD EXPECTED THE ASSISTANCE OF THE IMF. NO SUCH ASSISTANCE HAS BEEN FORTHCOMING BUT WE ARE HOPEFUL WITH AN U.S. BUDGET EXPERT WE WILL BE ABLE TO MAKE PROGRESS DURING THE YEAR. REVENUE POLICY ALSO WAS POSTULATED ON THE BASIS OF REALISTIC POL AND UTILITY PRICES SET BY THE GOVT. IN THE AREA OF UTILITY RATES, GOVERNMENT PERFORMANCE HAS BEEN GOOD, FOR EXAMPLE, ELECTRICITY AND WATER RATES HAVE AGAIN BEEN RAISED (THEY

HAD ONLY BEEN RAISED IN JULY) BY 90P/C ON THE BASIS OF HIGHER POL COSTS. THE GKR UNDER PRESSURE FROM US INSTITUTED A CONSIDERABLE INCREASE IN POL PRICES IN DECEMBER AND W ARE ENJOINING THEM TO INCREASE THEM AGAIN BY ROUGHLY 90 P/C IN THE WAKE OF FURTHER INTERNATIONAL POL PRICE INCREASES. THERE IS SO FAR NO RPT NO PROGRESS ON BANNING OF LUXURY GOODS (AS YOU KNOW THE IMF OPPOSES US ON THIS).

D. A SUPPLY OF DOMESTICALLY PRODUCED GOODS WAS TO BE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 PHNOM 02552 02 OF 02 201443Z

43

ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 SAM-01 EB-11 COME-00 TRSE-00 AGR-20 DRC-01

SR-02 ORM-03 AID-20 IGA-02 /152 W

----- 103367

R 200856Z FEB 74

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 5061

C O N F I D E N T I A L SECTION 2 OF 2 PHNOM PENH 2552

INCREASED. THROUGH SPECIAL CREDIT AND OTHER ARRANGEMENTS, PROJECTS IN AGRICULTURE, FORESTRY AND INDUSTRY WERE TO BE ENCOURAGED. IT IS STILL TOO EARLY TO REPORT ANY PROGRESS IN THIS AREA. HOWEVER IT SHOULD BE NOTED THAT THE PRICE OF VEGETABLES IN PHNOM PENH DECLINED IN JANUARY DUE LARGELY TO VEGETABLE PRODUCTION BY REFUGEES.

E. THE FLOW OF GOODS FROM ABROAD WAS TO BE MAINTAINED. OUR PROPOSAL HAD ASSUMED A CONSTANT VOLUME OF AID-FINANCED IMPORTS UNDER THE CIP, AND INDEED OUR ORIGINAL PROPOSAL HAD ENVISAGED THE ELIMINATION OF RESTRAINTS ON IMPORT DEMAND. HOWEVER ECONOMIC ASSISTANCE FUNDING CONSTRAINTS PRECLUDED THIS COURSE. THE STRATEGY OUTLINED BY US ORIGINALLY WOULD HAVE REQUIRED CONSIDERABLY MORE FUNDING THAN THE \$95 MILLION OF NEW OBLIGATIONAL AUTHORITY WHICH IS BEING AUTHORIZED DURING FISCAL YEAR 1974. A SEPERATE MESSAGE WILL OUTLINE PROGRAMMING AND FUNDING ADJUSTMENTS WHICH WILL BE NEEDED TO TAILOR THE PROGRAM TO THE FUNDS AVAILABLE.

F. ADEQUATE PROVISION WAS TO BE MADE FOR THE NEEDS OF THE REFUGEES DISPLACED BY THE WAR. A NEW REFUGEE RESETTLEMENT AGENCY HAD BEEN PROPOSED AND THE NEGOTIATION OF ITS ESTABLISHMENT MADE A KEY ELEMENT OF THE NEW PROGRAM. IN JANUARY, AS A RESULT OF A JOINT U.S./GKR EFFORT THE SHAPE OF THE ORGANIZATION WAS DRAWN UP AND LEGISLATION CREATING IT DRAFTER. THAT PROCESS HAS NOW BEEN COMPLETED AND THE ORGANIZATION LEGALLY ESTABLISHED. IN THE NEXT FEW WEEKS A MANAGEMENT STAFF WILL BE SELECTED AND OPERATIONS WILL

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 PHNOM 02552 02 OF 02 201443Z

GET UNDERWAY. THE PROBLEM THIS ORGANIZATION WILL FACE HAS BEEN AGGRAVATED BY THE RECENT HOSTILITIES IN THE PHNOM PENH VICINITY WHICH INVOLVED THE TEMPORARY ABANDONMENT OF SOME RESETTLEMENT AREAS NORTHWEST OF THE CITY. IF THE OUTCOME OF THE FIGHTING AROUND PHNOM PENH IS FAVORABLE TO THE GOVERNMENT, AS WE NOW EXPECT, THERE WILL BE CONSIDERABLE SCOPE FOR THE WORK OF THE FOUNDATION IN THE METROPOLITAN AREA OF THE CAPITAL. THE GOVERNMENT HAS AGREED TO AMPLE FUNDING OF THE FOUNDATION FROM COUNTERPART FUNDS.

G. TO COUNTER THE DECLINE IN INCOME OF PEOPLE WHO RELY ON SALARIES, AN IMMEDIATE PAY RISE WAS TO BE GIVEN. OUR ORIGINAL PROPOSAL HAD CONTEMPLATED A 15 P/C IMMEDIATE PAY RISE. IT HAD ALSO CONTEMPLATED AN EXTRA SUPPLEMENT FOR RICE CONSISTENT WITH A POSSIBLE INCREASE IN THE OFFICIAL PRICE OF RICE. FOR THE TIME BEING, THE OFFICIAL PRICE OF RICE WILL NOT BE CHANGED AND THE RICE SUPPLEMENT ITSELF WILL NOT BE INITIATED. AFTER REVIEW OF THE SALARY SITUATION WITH THE GOVERNMENT, IT WAS AGREED THAT A 3,000 RIEL PER EMPLOYEE WAGE SUPPLEMENT WOULD BE GRANTED. THIS WAS ROUGHTLY 25 P/C OF AVERAGE GOVERNMENT MONTHLY INCOME, THE FLAT AMOUNT BENEFITING THE LOWEST PAID EMPLOYEE THE MOST.

3. OVERALL THE RESULTS THUS FAR HAVE BEEN MIXED, AND INDEED GIVEN THE DIFFICULTY IN OBTAINING ACCURATE INFORMATION AND THE ARCHAIC NATURE OF GKR STATISTICS AND PRICE INDICES, IT IS NOT EASY TO SAY, AS YET, WHAT THE TREND IS. THE MOST STRIKING RESULT HAS BEEN THE DECLINE IN THE PRICE OF RICE, OVERWHELMINGLY THE RESULT OF U.S. ACTIONS RATHER THAN GKR ACTIONS. HOWEVER THE HEART OF THE PROBLEM

HAS ALWAYS BEEN RICE AND THE UPWARD SPIRAL IN THE RETAIL PRICE OF RICE HAS BEEN REVERSED. IN ADDITION, SOME FOOD PRICES SUCH AS FRESH FISH AND CERTAIN VEGETABLES HAVE DECLINED. MOST OTHER PRICES CONTINUE TO RISE. THE OFFICIAL WORKING CLASS INDEX INCREASED 12 P/C IN JANUARY BUT RICE IS ONLY 10 P/C OF THE OVERALL INDEX WHEREAS IT SHOULD PROBABLY BE ABOUT ONE THIRD AND THE TYPE OF RICE ON WHICH THE INDEX IS BASED IS DOMESTIC RICE WHICH HAS NOT DECLINED AS MUCH AS THE AMERICAN RICE. IT IS THE AMERICAN RICE WHICH MOST OF THE CITY IS NOW CONSUMING. THE UNOFFICIAL PRICE INDEX KEPT BY US SHOWS AN INCREASE OF ABOUT 9 P/C IN JANUARY. WHILE THIS IS ABOUT 2 PERCENT MORE THAN OUR OWN INDEX INCREASED JANUARY A YEAR AGO, LAST YEAR RICE WAS STARTING TO INCREASE IN PRICE AT THIS TIME

RATHER THAN DECLINE. WE HOPE SOON TO BE ABLE TO PERFORM A BETTER
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 PHNOM 02552 02 OF 02 201443Z

ASSESSMENT OF THE OVERALL PRICE SITUATION. IN GENERAL WE ARE
OF THE VIEW THAT FURTHER PROGRESS IN THE NEW ECONOMIC POLICY IS
POSSIBLE UNDER THE LONG BORET GOVERNMENT. BUT WE ARE ALSO
KEENLY AWARE THAT SUCH PROGRESS WILL BE IN NO SMALL MEASURE A
FUNCTION OF OUR WILLINGNESS AND OUR ABILITY TO WORK WITH THE
GKR IN ADDRESSING THESE PROBLEMS. IT IS ALSO CLEAR THAT THE BASIC
SOLUTION TO THE ECONOMIC PROBLEMS BESETTING THE COUNTRY HANGS
ON PROGRESS BY THE GKR MILITARILY AND IMPROVEMENT IN THE
SECURITY SITUATION.
ENDERS

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, RICE, WAGES, ECONOMIC PROGRAMS, FOREIGN POLICY POSITION, FOREIGN ASSISTANCE, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974PHNOM02552
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: PHNOM PENH
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740221/aaaaaton.tel
Line Count: 240
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A. PHNOM PENH 13325; B. PHNOM PENH 1, 4293
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 10 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 JUL 2002 by martinml>; APPROVED <15 JAN 2003 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: HYPERINFLATION IN CAMBODIA AND THE NEW ECONOMIC POLICY
TAGS: EAID, EFIN, CB
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005